The New Approach to Industrial Recovery in Algeria: Opportunities and Challenges

Azzedine ZABAT

University of Jijel, Algeria

a.zabat@univ-jijel.dz

Abdelhamid MERGHIT

University of Jijel, Algeria

a.merghit@univ-jijel.dz

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Abstract :
This paper examines Algeria's new approach to industrial recovery, launched in 2021, aimed at halting the deindustrialization process that has occurred over recent decades. The goal of this new strategy is to increase the industrial sector's contribution to gross domestic product (GDP) to a target range of 10 to 15% in the near future. In this context, the paper highlights the key features of this new strategy and discusses its potential opportunities for the country's industrial development. Our main findings indicate that the measures implemented under this new industrial approach represent a positive step; however, the success of this strategy faces several challenges that must be addressed.

***Key Words*:** Industrialization ; Deindustrialization; Industrial recovery; opportunities & challenges -Algeria.

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* Corresponding author: Azzedine Zabat (*zabatazzedine@gmail.com*).

Introduction :

The various industrial policies implemented by Algerian authorities since independence in 1962 have failed to establish a solid foundation for the country's industrialization process (Merghit & Begga, 2014). Moreover, deindustrialization has worsened in recent decades. As President Abdelmadjid Tebboune remarked in his opening speech at the National Conference on Industrial Recovery in 2021: "...Is it reasonable for us to continue importing goods such as ready-made clothing, shoes, or even cardboard boxes in 2021—items that our national industry is capable of producing?!" (Ministry of Industry, 2021).

Historically, the socialist regime established by newly independent Algeria significantly influenced the design of its development strategy, which was centered on state-led industrialization. This policy prioritized the creation of large state enterprises and substantial investments in the public sector while largely neglecting any significant role for the private sector's role. In the 1970s, the colossal deficits incurred by public industrial enterprises prompted the government to implement a vast restructuring policy between 1980 and 1985 to address this catastrophic situation. Despite these efforts, the industrial sector continued to suffer from

disappointing performance. Thereafter, the reversal oil shock in 1986 exacerbated the situation and contributed to heightened social tensions, particularly following the violent demonstrations in 1988, which compelled authorities to initiate the groundwork for political and economic liberalization. As a result, significant economic reforms were introduced in the 1990s through an International Monetary Fund (IMF)-supported adjustment program (1994-1998), aimed at transforming the Algerian business environment from a state-centered, control-oriented model to a free, open market orientation. In this context, the government adopted privatization as a key strategy to rescue the poorly functioning economy and enhance the efficiency and global competitiveness of local industries. However, in practice, the privatization process in Algeria has never truly gained momentum. Furthermore, the country has experienced (from 1980 to the present), a secular decline in the share of manufacturing employment from 1980 to the present, with the industrial sector constituting only a small fraction of Algeria's GDP—just over 6 to 7% (Merghit&Begga, 2014).

In 2019, a movement known as the "Hirak" (popular uprising) began its massive weekly peaceful street marches, successfully ending the former president's plans for a fifth presidential term after 20 years of his rule, which was characterized by widespread corruption. In 2020, a new political regime came to power, with a program that included numerous political and economic reforms. Boosting the economy was among the top priorities; consequently, a national conference on economic recovery was chaired by the new Algerian president in August 2020. Subsequently, another national conference on "industrial recovery" was organized in 2021 by the Ministry of Industry to develop a new approach for industrial recovery, emphasizing the need to increase the contribution of industry to the gross domestic product (GDP) to reach a target level of 10 to 15% in the near future (Ministry of Industry, 2021).

In this paper, we aim to understand Algeria's new approach to industrial recovery and discuss its opportunities and challenges. To address these issues, the present paper is organized as follows: Section I examines the primary causes and consequences of Algeria's deindustrialization in recent years. Section II provides an overview of the key features of the new approach for industrial recovery strategy. Finally, Section III discusses the main opportunities of this strategy and correspondingly, proposes action plans to address its challenges.

I. Algeria's Deindustrialization: Causes and Consequences.

This section addresses the main causes and consequences of Algeria's deindustrialization in recent years. However, before delving into that, we will briefly outline Algeria's industrialization strategy in Algeria and its shortcomings.

1. Industrialization strategy in Algeria

Since gaining independence from French colonial rule in 1962, Algeria, as an oil-producing country, embarked on the construction of a socialist economy centered on a total commitment to industrialization policies, while significantly limiting the role to the private sector. However, after the nationalization (started in 1966) of the

entire economy, which began in 1966, Algeria has experienced the industrialization strategy between the mid-1960s to the end of the 1980s (Talahite, 2016). This strategy which prioritized capital-intensive heavy industries, despite their lack of comparative advantage, and was implemented through three development plans: the Three-Year Development Plan (1967-1970), the Four-Year Development Plan (1970-1973), and the Four-Year Development Plan (1973-1977). These investments were focused on the creation of basic capital-intensive industries, such as hydrocarbons, steel, plastics, and fertilizers, as well as prioritized industries relevant to processing and import substitution, including materials, metal products, products, and goods (Merghit & Begga, 2014). The financing for these plans were came from public treasury and external borrowing. The table below illustrates total industrial investments during the period (1963-1979): from 1963 to 1979:

Table 1. Industrial investments in Algeria (1963-1979)

	1963	**65**	**67**	**69**	**70**	**72**	**74-77**	**78-79**
Total investments billions of dinars	645	830	1693	4257	6218	9253	11868.8	10645.1
Industrial investments billions of dinars	151	156	798	2200	3430	4692	7420	6600
% Total Investments	13.4	18.7	47.1	51.7	55.2	50.7	61	62

Source: Adapted from : - Benachenhou A.(1982). *L'expérience Algérienne de planification et de développement (1962-82)*, OPU, Algérie, p.49. & MIRA R. (2015), Économie politique de l'industrialisation en Algérie, *Thèse de doctorat*, Université Paris 13, p.154.

It is evident that the share of industrial investment remained relatively low between 1963 and 1966, reaching only 25% of total investment. This investment primarily focused on consumer goods industries such as : textiles, leather, and foodstuffs (MIRA, 2015). However, in 1967, a significant shift occurred, with the break is obvious with a share rising to 47.1%, and it subsequently maintained levels exceeding 60% during the period from 1974 to 1979.

The primary objective behind the adoption of the industrialization strategy was to establish an industry conducive to employment, and to create an integrated industrial base within the context of self-sustaining development on the national market. However, the performance of the industrial sector in the 1970s did not meet the expectations of the authorities due to the substantial deficits recorded by public industrial enterprises, which were attributed to low productivity and a lack of competitiveness. This catastrophic situation has compelled the government to address it. However, between 1980 and 1985, the country initiated significant industrial reforms known as the restructuring policy, aimed at achieving two primary objectives:

-The separation of the production function from the commercial function in public industrial enterprises;
-Providing greater specialization in the production structure, considered necessary to enhance economic efficiency and reduce Algeria's significant dependency on foreign markets (Merghit&Begga, 2014).

However, these reforms failed to revive the industrial sector due to the adverse economic conditions facing the Algerian economy, especially the decline in oil and gas prices in 1986. Additionally, billions of dinars in subsidies for public enterprises subsidies were required to service external debt and to meet the population's basic needs, which these enterprises were unable to fulfill. As a result, the state-owned industrial sector continued to be a significant burden for the country's budget. Subsequently, in 1988, authorities introduced a policy granting managerial and financial autonomy of state-owned enterprises, moving away from the traditional concept of tutelage. This autonomy policy was reinforced by the "88-01" law.

After many years of its implementation, the industrialization policy began to reveal its inevitable dysfunctions, particularly under the unstable political and economic conditions that followed the October 1988 riots, which considered as the worst since Algeria's independence. Following these riots, the authorities promised greater political freedom. However, to address the poorly functioning economy and rectify the observed imbalances, the authorities were compelled in the 1990s to shift the Algerian business environment from a socialist framework to a free market system. This shift included a reduction in the state's economic role and the recognition of private economic liberties (Rafael Bustos,2003). Subsequently, a vast project of economic reforms was carry out under the supervision of the international monetary fund (IMF) supported adjustment program (1994-1998). Part of the reform program was, as in other similar experiences, privatization policy which considered as the right tool for reducing the share of the public sector in the economy in order to allow the emergence of a dynamic private sector and making local industries more efficient and competitive. Thus, the government approved in 1995 the law on privatization which offer sufficient flexibility to undertake privatization in many forms (a) sale of all or fraction of the shares in an enterprise through private deals or competitive bidding or through the stock exchange (b) subscription of shares by private investors in the context of a capital increase(c) sales of assets, or (d) concession (Merghit & Begga, 2014). Moreover, in the 2000s , the country experienced massive investments in infrastructure, primarily driven by relatively high oil prices. However, the government has launched a substantial plans to improve infrastructure and broaden access to essential services, including housing, water, energy, and healthcare. In contrast, the industrial sector has not received sufficient government attention or investment.

2. Algeria's Deindustrialization: The evidence

According to (Rowthorn , Ramaswamy,1997) the deindustrialization phenomenon can be defined as "the long term decline in the share of manufacturing employment in total employment». However, (Jalilian & Weiss, 2000) test the presence of a deindustrialization process in 86 countries for the period 1975-93. They establish that Algeria is one of the countries affected by significant deindustrialization. The same results was reached by an official report on industrialization and entrepreneurship in Africa (African Development Bank,2017). The table below summarizes the main features of Algeria's deindustrialization:

Tabl.2. Algeria: Main indicators of industrial development (1990-2020)

	1990	2000	2005	2010	2015	2020
Employment in industry (% of total employment)	16.7	9.98	8.4	13.73	12.99	12.85
Value added by manufacturing (% of GDP)	11	6.2	4.8	4.5	4.7	5.6
General index of industrial production (1989 =100)	100	91.2	68.9	74.7	73.8	87.3

Source: IMF & National Statistics Office (ONS).

The table above illustrates a significant slowdown in the Algerian industrial development. Specifically, industrial employment as a proportion of total civil employment has decreased continuously declined since the beginning of 1990. Furthermore, the value added by manufacturing as a percentage of GDP decreased from 11% in 1990 to 5.6% in 2020. This decline aligns closely with the general index of industrial production, which fell between 1990 and 2020 from 100 in 1990 to 87.3 in 2020.

The process of deindustrialization which began by the end of 1980s , has exacerbated by the (IMF) supported adjustment program (1994-1998). In this context , (Hossein Jalilian & John Weiss, 2000) , argued that the relatively weak performance of manufacturing industry in Africa has connection with the impact of structural adjustment reforms, which critics feel have badly damaged an initially frail manufacturing base through a combination of fiscal and monetary contraction, devaluation and trade liberalization. Consequently, the Algerian economy remains little industrialized, of which it exports raw material with very little added value, while it imports manufactured products with high added value. According to the latest rankings published by the African Development Bank (ADB), in Nov. 2022, Morocco and Tunisia ranked second and fourth respectively among the continent's countries in terms of industrialization, while Algeria came only 11th.

Overall, many factors can explain the failure of Algeria's industrialization strategy in achieving its goals, the most important ones are:

- The industrialization strategy failed because the government has tried to impose the development of industries that were ill-suited to the country's endowment. In other words, the industrialization process has "defied" the comparative advantage principle identified by its factor endowments, and gives rise to domestic market distortions and the misallocation of scarce resources (Haouas & Justin,2023);

-The industrialization strategy allowed the establishment of large state enterprises and investing heavily in the public sector, while hampered the freedom of action of the private sector through not allowing it for any significant role in the economy (Merghit &Begga, 2014) ;

-The technology that was transferred by foreign enterprises selling their factories and production process. This technology was obsolete and thus did not allow Algeria to compete with the same enterprises on foreign market or even fulfill domestic market demand. This led to a total dependency on imports for public enterprise raw materials as well as the basic needs of the population (Merghit & Begga, 2014).

- The contribution of the national industrial production to the gross domestic product falls short of expectations, the country's abundant capabilities, and the substantial financial resources allocated to the sector. In 2018 and 2019 alone, over 1,500 billion dinars—equivalent to 10 billion dollars—were designated for projects registered with the National Agency for Investment Support, activities support agencies, as well as for exemptions and customs reductions (Ministry of Industry, 2021).

II. Revitalizing Algeria's Industrial Sector: An Overview of the New Approach to Industrial Recovery.

In 2020, a new political regime came to power in Algeria as a result of the widespread popular uprising known as "Hirak," which marked the year 2019. This movement successfully ended the rule of former President Abdelaziz Bouteflika, who had been in power since 1999 and who intended to run for another presidential term. In an effort to address the aspirations of the popular revolution, the new president pledged to implement significant economic and political reforms to break away from the practices of the previous political system, which was characterized by widespread corruption in all its forms and at all levels.

national conference on economic recovery was chaired by the new Algerian president on August 18-19, 2020. This conference, held under particular circumstances marked by falling hydrocarbon prices and the COVID-19 pandemic, aimed primarily to establish the foundations of a new growth model. This model focuses on improving the competitiveness of the national economy, enhancing entrepreneurship, supporting the participation of the private sector participation, and reducing the burden on the state budget (APS, 2020). The conference produced several recommendations, including the need to revitalize the industrial sector and recognize it as a key component in diversifying the economy.

Subsequently, another national conference on "industrial recovery" was organized on December (4-6) 2021 by the Ministry of Industry from December 4 to 6, 2021. Its primary objective was to develop a new approach for industrial recovery through the presentation of an ambitious, practical, and realistic draft action plan of action for discussion, enhancement, and approval. This plan aims to serve as a roadmap for all economic and administrative stakeholders to advance the industrialization process in the country on solid foundations. It is worth noting that this national conference on "industrial recovery" witnessed the participation of

about 700 participants, including businessmen, managers of public and private companies, heads of financial institutions, university researchers, and senior executives from various ministries, as well as specialized support and accompaniment agencies and social partners (APS, 2021).

1. The New Vision for Algeria's Industrial Recovery Strategy

The new strategy emphasizes the active participation of industry in revitalizing the national economy and increasing its contribution to the gross domestic product. In other words, it aims to embark on a path that enables all stakeholders to better unite their efforts to stimulate industrial growth, which in turn will foster the growth of the entire national economy.

More specifically, this new strategy aims to elevate the contribution of industry to the gross domestic product (GDP) to reach a target range of 10 to 15% in the medium term. This increase is expected to have positive repercussions on the national economy, particularly :(Ministry of Industry, 2021)

- A gradual substitution of imports with local products, known as import substitution industrialization, along with the development of strategies for exporting industrial goods among industrial firms and their branches.
- Industrial development serves as the foundation for the advancement of various sectors, including agriculture, construction, public works, and other industries related to industrial activity.
- Industrial development is regarded as a crucial resource for job creation and the reduction of unemployment, particularly among youth with university degrees.

2. The Key Components of the New Industrial Recovery Strategy

For the successful implementation of this strategy and the achievement of its objectives, the authorities have decided to sever ties with all previous negative practices in the industrial sector. They will conduct a comprehensive review of the governing system, particularly focusing on the following areas: (Ministry of Industry, 2021)

2-1- Fighting Bureaucracy: Government bureaucracy is regarded as a significant impediment to conducting business in the country (Merghit, 2021). However, 402 completed investment projects have yet to be put into operation due to the inadequate preparation of industrial zones and activity areas, as well as the necessary connection works to various networks (electricity, gas, water, etc.). Additionally, delays in processing administrative licenses have hindered the implementation of these projects (Ministry of Industry, 2021). In this context, the new strategy focuses on improving the relationship between investors and public administration by enhancing cooperation based on mutual trust and collaborative efforts for the benefit of the country. Consequently, public authorities' interventions in this area have concentrated on two main issues:

- Removing all obstacles from 57 existing projects that were previously suspended without a valid reason, along with the government's efforts to facilitate the completion of projects either under construction or halted for various reasons, which are estimated to total 402 projects. Furthermore, by the end of 2021, the freeze was lifted on 937 investment projects to enable investors to benefit from the

incentives provided by the National Agency for Investment Development (ANDI) (Ministry of Industry, 2021).

- A one-stop shop with national expertise dedicated to major projects and foreign investments was established in October 2022. Its purpose is to facilitate the acquisition of administrative permits and to clarify the deadlines for the administration to issue these permits (https://aapi.dz/en/guichet-unique-decentralise-en/).

2-2- The Rehabilitation of Industrial Real Estate: The government's commitment to ensuring optimal utilization has led to the establishment of mechanisms designed to minimize public administration interventions. Notably, Algeria's real estate base includes over 628 activity areas and 65 active industrial zones, spanning 54 governorates and covering more than 27,000 hectares. Furthermore, 14,700 plots of land have been allocated but remain unused. Hence, the key measures implemented by the government for the rehabilitation of industrial real estate can be summarized as follows:

- In May 2022, the government began reviewing the 2008 legal framework related to the concession system for lands classified as state-owned private property, which are intended for investment projects. The new amendment aims to increase the availability of real estate designated for investment in various sectors, particularly by enhancing the value of state-owned private land and directing it toward wealth and job creation.

-Since 2023, the provision of industrial real estate to investors will be on a short-term basis, facilitated by a newly established agency called the for Industrial Real Estate. This specialized agency aims to provide a comprehensive solution to the challenges in the real estate sector. It will operate under a purely economic framework, ensuring complete transparency and minimizing direct interventions from public administrations.

- As part of the rehabilitation of industrial real estate, approximately 2,308 hectares of granted but unused land in the industrial zones were recovered in 2022. Additionally, the Ministry of Industry announced the establishment of three new industrial zones in Bejaïa, Boumerdès, and Tlemcen (APS, 2022).

2-3- Rethinking the Governance of State-Owned Enterprises (SOEs): Most existing state-owned enterprises (SOEs) have suffered for a long time from poor financial performance. For instance, in 2017, the Algerian Prime Minister at that time estimated the total debt of public and state-owned enterprises to be 1,000 billion dinars (approximately 7.4 billion dollars) (Merghit, 2018). Consequently, the new industrial strategy aims to conduct a comprehensive audit of the governance structures of SOEs to enable them to operate with a professional approach aligned with international best practices. This new governance model will facilitate their growth and strengthen their positioning in both national and international markets.In this context, the government is committed to implementing comprehensive reforms and renewing the governance of state-owned enterprises from a three-dimensional perspective:

- Financial Dimension: This takes into account the constraints that burden public finances, particularly in light of the increase in government expenditures to cover the financial losses of State-Owned Enterprises (SOEs) and the repayment of their guaranteed debt.
-The economic dimension is justified by the necessity to continue implementing sectoral strategies, infrastructure projects, and equipment upgrades within the country.
-The societal dimension is underscored by the importance of continually upholding the three principles of active solidarity, quality public service, and social and environmental welfare.
Moreover, the government is committed to establishing results-based management rules and efficiency contracts for state-owned enterprises (SOEs) by subjecting them to governance bodies, particularly those related to audit and risk management functions, as well as incentive and reward management. Additionally, the procedures for appointing SOE managers must be framed with clear and transparent standards of efficiency, limiting their mandates to a specific period and linking them to performance contracts based on efficiency and results achieved. Furthermore, the government is working to strengthen all oversight bodies, such as the National Audit Court and the General Inspectorate of Finance (Ministry of Industry, 2021).

2-4- Developing Industrial Handling:The new approach to industrial recovery is dedicated to developing industrial handling and emphasizes the importance of local production of commonly used components. This includes parts made from raw materials that are currently available or likely to be sourced locally, such as steel, stainless steel, plastic, and processed cotton. Furthermore, the new strategy proposes the establishment of an information system to track national production of inputs and semi-finished materials, with the aim of enhancing industrial handling practices.
To fulfill these commitments, the authorities have recently launched an electronic platform designed to serve as a national map connecting large companies with small and medium enterprises, as well as startups. This platform aims to reduce the importation of products that can be manufactured locally by small and medium enterprises (Algeria News Agency, 2022).

2-5- Developing innovative financing mechanisms for the industrial sector as alternatives to traditional bank financing: The current financing system for the industrial sector in Algeria places a significant burden on the state budget. For instance, between 2011 and 2020, total expenditures incurred by the public treasury to reduce interest rates on investment loans were estimated at approximately 711 billion dinars (4.7 billion dollars). Additionally, the total amount of bank financing for the national economy during the period from 2019 to 2021 was estimated, as shown in the table below, to be 14,192 billion dinars (94.6 billion dollars). The industrial sector's share of this financing amounted to 2,413 billion dinars, representing 44 percent of the total financing volume.

Table 03. Bank Financing for the National Economy (2019-2021)

	2019	2020	2021
Investment loan files studied by banks	96500	164000	142072
Exploitation loan files studied by banks	162849	168275	168000
Total investment loans (billion dinars)	1870	1859	1774
Total Exploitation loans (billion dinars)	2758	2872	3059

Source: Bank of Algeria.

Nevertheless, the new industrial strategy aims to promote innovative financing mechanisms for the industrial sector, thereby reducing the burden on the state budget. The government has committed to providing the necessary funds to finance industrial projects by developing alternative financing options to bank credits. This includes creating the conditions needed to activate the role of the stock exchange, attract savings, and encourage managers of state-owned enterprises (SOEs) to consider financing their investments through the stock exchange. Furthermore, a legal framework for public-private partnerships (PPPs) was established in 2022 by the Ministry of Finance to leverage resources for financing infrastructure and industrialization projects (Ministry of Industry, 2021).

2-6- Making the economic and social profitability of public funds and incentives allocated to the industrial sector key indicators for evaluating efficacy and effectiveness: In this regard, all active firms in the industrial sector, whether public or private, that benefit from the support and incentives—such as subsidies and tax exemptions—offered by public authorities must recognize the importance of the responsibility entrusted to them in creating wealth and jobs as a return for enjoying these incentives. Furthermore, the new industrial strategy stipulates that certain measures aimed at supporting and protecting national products should not be permanent. Conversely, the industrial sector must primarily focus on capitalizing on the opportunities presented by the rapid transformations occurring in the global industry to enhance competitiveness, rather than relying on protectionist measures.

2-7- The urgent need to enhance research and development in the industrial sector:The primary objective of this government approach is to encourage industries facing increasingly fierce global competition to produce products that meet the demands of the international market, particularly regarding quality standards and technological content. Among the recent measures and efforts undertaken to promote innovation and creativity in the industrial sector, the government has focused on: (Ministry of Industry, 2021)

- ✓ **The Creation of a National Agency for Creativity**: This agency will operate under the direct supervision of the Prime Minister. Its aim is to foster creativity to contribute to anticipated national economic growth by establishing start-ups and reducing production costs.
- ✓ **The establishment of the Algerian Academy of Sciences and Technology**: This academy is regarded as a reference institution for

expertise and consultation, aimed at fostering a society rooted in science and knowledge, which emphasizes creativity, scientific advancement, and technological innovation.

- ✓ **The Establishment of Incubators at National Universities:** These incubators will be start-up centers for new entrepreneur's graduates of universities, wishing to set up their own projects.

2-8- Reviewing Algeria's free trade agreements: Algeria employs partnerships as a strategic mechanism to achieve the objectives of its development programs. This approach facilitates the development and implementation of projects encompassing the mastery of production techniques, the transfer of knowledge and expertise, training, research and development, and the creation of wealth and employment opportunities. In this context, the new industrial strategy necessitates a reassessment of Algeria's principal trade agreements, such as the EU-Algeria Association Agreement signed in 2002, to better serve the national economy while maintaining amicable relations with these partners.In this context, the President of the Republic instructed the government on 31 October 2021, during a cabinet meeting, to reassess the terms of the association agreement with the European Union (EU), originally signed in 2002. The President emphasized that the re-evaluation process would be conducted with a sovereign perspective and a mutually beneficial approach, prioritizing the interests of Algeria (APS, 2021). It is noteworthy that more than half of Algeria's foreign trade is conducted with EU member states, accounting for 56% of exports and 43% of imports.

2-9- A comprehensive review of the investment code: The effectiveness of the industrial recovery strategy is contingent upon the revision of the investment code to render it more conducive to fostering domestic investment and attracting increased foreign direct investment. The revised investment code must ensure that all types of investment incentives are thoroughly evaluated and grounded in economic feasibility, eschewing preferential treatment and a rent-seeking culture. In July 2022, a new investment code was enacted to introduce a series of measures aimed at encouraging investment, with the objective of advancing the development of high value-added industries, promoting technological transfer, and fostering innovation and a knowledge-based economy. This new legislation also incorporates several measures and guarantees designed to enhance Algeria's competitiveness as an investment destination while ensuring the highest level of legal protection for investors (Ministry of Industry, 2021).

III. On the Opportunities and Challenges of the New Industrial Recovery Approach

The commitment of the new industrial recovery strategy to increase the contribution of industry to the gross domestic product to reach a level of 10 to 15% in the medium term is undoubtedly a trend that allows ensuring that the country makes the most of the advantages and opportunities that this strategy generates and, at the same time, deals with the challenges that it introduces.

1. Exploiting Algeria's opportunities for industrialization:

There is a significant opportunity for the country to enhance its economic performance and achieve sustained economic growth through its new industrial recovery strategy. In this context, the authorities should prioritize the development of two key sectors with strong industrial potential: commodity-based industries and domestic manufacturing.

1.1-Commodity-based industrialization

Algeria, a commodity exporter country- is dominated by its oil and gas resources, which account for more than 95 percent of the country's exports. Also, Algeria is the 18th largest oil producer and, the 10th largest gas producer in the world. In addition, about two-thirds of Algerian territory remains unexplored or largely underexplored. Furthermore, the national oil company "Sonatrach" will invest USD 40 billion, over the next five year with a focus on: Exploration & Production -Oil services-Drilling technologies-Refining & Petrochemicals-Clean technologies-Oil and Gas digital technologies. In this respect ,To attract international investments, the government has reviewing In December 2019 the country's oil and gas legislation, through publishing its new hydrocarbons law, allowing shale resources development, reducing the tax burden by more than 20%, and providing for flexible commercial terms (Embassy of Canada to Algeria,2021).

Consequently, industrialization based on commodities in Algeria is key to long-term development, by linking industrial activity with primary sector activity, domestic and foreign trade, and service activity. This perspective is supported by a report issued by the United Nations, which states that massive industrialization based on commodities in Africa is essential, feasible, and advantageous (United Nations, 2013).

In this regards, the petrochemical industry is considered as one of the promising sectors to reduce Algeria's dependence on imports and increase the export of petrochemicals and fertilizers. Also, this industry provides important opportunities for cooperation and investment between Algeria and its partners. For example, on June 11, 2023, A subsidiary of Algeria's national oil company "Sonatrach" has signed a deal of $1.5bn with a British-Chinese consortium to establish a petrochemical complex that produce 550,000 tons of polypropylene per year (Reuters,2023).

1.2-Potentials of Domestic manufacturing: Algeria has many local manufacturing products that have strong export opportunities. To unleash their full potential, the authorities must embark on a bold agenda driven by private sector-led investments in the production of specific processed and manufactured goods. Domestic manufacturing can be grouped into the following categories:

a-Mining industry: To diversify its economy away from oil and gas, Algeria seeks to implement an ambitious program to develop its mining activities, aiming at the industrial valuation of mine resources through the development of structural and strategic projects for : Iron, Phosphorus mines, Coal and Zinc, in addition to other precious metals such as Lithium and Gold.

Therefore, the cornerstone of the mining industry development is the field of "Iron and steel", which present new windows of opportunities, with an annual production of 3.5 million tons, or 10.8 percent of the total production of the Arab countries. Subsequently, Algeria is considered the third largest Arab producer of iron after Egypt and Saudi Arabia. In addition, it is necessary to point out that Algeria has considerable underground wealth mining at "Gar Djebilet" iron mine located in the southwestern province of "Tindouf" with estimated reserves of more than 3 billion tons. On March 30, 2021, a Chinese consortium signed a memorandum of understanding with an Algerian state company (Feraal) to exploit the "Gar Djebilet" iron mine, where the project cost could exceed $2 billion (Reuters,2021).

b-Mechanical industries (Automobiles, Shipbuilding& Repair): In the mechanical industries, the government has made substantial efforts to promote the automotive industry in partnership with companies with great experience in this field, notably "FIAT" and "Renault". According to the authorities, the country can become a leading industrial pole, thanks to the combination of several factors, including: promising local market, distinguished geography, qualified workforce, energy at competitive prices, ...etc.In this context, the carmaker Fiat had signed on October 2022, a framework agreement with Algerian authorities to develop its activities in the county, including for local production of vehicles (Reuters, 2022). Moreover, the Renault factory (established in 2012) is witnessing a serious dynamism in adjusting its activity in accordance with the new regulatory texts of 2019. On the other hand, the shipbuilding industry is considered as one of the current priorities of the national industry, given the country's direct access to the Mediterranean Sea (1200 square kilometers) and the increasing demand for the products of the fishing sector. However, investment opportunities in this sector may include: manufacturing of propulsion engines and their accessories, marine fishing equipment and navigation devices, as well as the manufacture of spare parts, in addition to the development and rehabilitation of service ships for aquaculture.

c- The pharmaceutical industry: The healthcare sector in Algeria is, without a doubt, a relatively growing market, and the demand for medical equipment and pharmaceuticals is considerable and largely depends on imported goods. For instance, the domestic production of pharmaceuticals currently covers more than 50% of the needs of the national market; meanwhile, the government aims to cover the national market for pharmaceuticals that can be produced domestically by nearly 80% by 2024, with priority given to medicines against chronic diseases (APS,2023).

d- Agro industry : The agro-industrial products sector is one of the main sectors targeted in the national strategy for industrial recovery in Algeria due to its importance in achieving food security, promoting economic diversification, meeting local demand, and increasing exports to regional and global markets. In recent years, this sector still resorts to imports to meet the ever-increasing domestic demand, despite the existence of 31,000 active companies, with a 50% contribution to the national industrial production. The challenge in the near future is to achieve

self-sufficiency and food security through making more and better investments in agro-industrial products such as: canning and preserving of fruits and vegetables, agricultural and livestock production- cocoa, chocolate, and sugar confectionery-tobacco-and bakery products…

e- Electrical and Electronics industries: An emerging sector prioritized in the national strategy for industrial recovery in Algeria is the electrical and electronics industries. Authorities aimed at achieving import substitution of electrical and electronics equipment and inputs, amounted in 2021 to approximately $3.5 billion. In addition, the governments are working to enhance and develop the means of producing and transmitting electricity, as well as diversifying the national energy mix. Moreover, developing new and renewable energies will open wide opportunities for investment and partnership between Algeria and its partners.

Throughout the preceding analysis, it is worth noting that stimulating all the manufacturing sectors in Algeria and strengthening its linkage to the agricultural and hydrocarbon sectors will promote industrial efficiency and serve effectively as a strong driver of economic growth.

2. Challenges of the new industrial recovery strategy

The measures taken under the new industrial recovery strategy are a welcome step because they constitute an opportunity to improve the institutional framework for the industrial private sector. However, these measures proved inadequate to address all the issues of industrial recovery. Thus, to make such an industrial recovery possible, policy makers should address a diversity of challenges, which can be summarized as follows:

-The mutuality of state and market in the Algerian industrialization process: This implies that authorities should reduce the concurrent decline of the interventionist state and rapid deindustrialization since the 1990s. As demonstrated by (Dani Rodrik,2004) , many successful industries in many countries have relied on a combination of market and state support through well-designed industrial policy but relatively minor interventions. In this context, Algeria needs the implementation of a strategy in which the state and the market can work together, contrary to the neoliberal strategy, to ensure industrial development.

-Algeria is among the lowest level oil countries of industrial development given its weak business climate. Therefore, achieving strong industrial GDP growth requires that the business climate be improved through adopting policies to increase the general incentives in the economy as: lowering the cost of creating a business, lowering taxes, protecting property rights, fighting corruption…, and enhancing the ability of the financial system to generate more savings and other financial services to the SME companies and entrepreneurs who are most able to undertake productive investment (Merghit,2022).

- Algeria's industrial export diversification will be a major challenge, given that hydrocarbons are poorly connected to the rest of activities, which place the country among the least-connected export basket oil countries (Hausmann,et al.,2010). However, new industries are very far away from hydrocarbons and require a completely new set of capabilities. Therefore, Algeria should move to new

industrial export activities that are "close" to one another in the product space. This concept was introduced by Hausmann and Klinger (2006, 2007), who investigated the process by which countries move to new export activities. Thus, if two goods need the same capabilities, a country that has a comparative advantage in one is likely to have a comparative advantage in the other.

- Algeria needs to reconfigure its industrial policy framework, by giving up focus on issues related to the use of tax breaks or subsidies, or the volume of budget allocated for industrial promotion, or sectors identified by the government, toward a new framework prioritize organizing dialog between government and private sector, through the importance of setting up as (Hausmann, et al., 2008) argued, institutions that engage the bureaucrats in an ongoing conversation of pertinent themes with the private sector actors. This type of dialog will allow for the identification of the sector-specific public goods that new activities require and provide them; this task also involves identifying regulations that prevent the new activities from emerging and reforming them in order to allow the high-potential emerging activities to grow more rapidly (Hausmann,et al.,2010).
- The creation of industrial parks and clusters for manufacturing companies is crucial for ensuring high value addition in the production of finished products. This represents a significant opportunity for inclusive and sustainable industrial development. Industrial parks aim to attract investors by providing essential public inputs within the park. These parks should be developed based on geographical zones that focus on resources where each zone has a comparative and competitive advantage. Furthermore, authorities need to support these industrial parks by establishing logistical export corridors, drawing on the successful experience from 2007 with the export of dates, during which the government implemented special procedures for processing paperwork, passing customs, and obtaining necessary export logistical facilities. Additionally, authorities should take further measures to promote the industrial cluster strategy initiated in 2007.In this context, public-private partnerships are highly recommended to create efficient mechanisms for boosting manufacturing products with strong export potential. Consequently, these industrial clusters should be established in regions that meet attractive conditions, such as the availability of basic infrastructure (access to roads, railways, ports, airports, etc.), with management handled by a private cluster company.
- Tackling corruption: Algeria ranks 106th out of 180 countries in the Corruption Perception Index. The persistence of this issue increases the costs and risks associated with doing business in the country, deterring both investment and foreign direct investment (FDI) flows. Consequently, authorities must strengthen their anti-corruption policies to address the root causes.

Conclusion

Since gaining independence in 1962, Algeria has committed to building a socialist economy centered around industrialization policies. The country has made substantial investments in capital-intensive heavy industries, despite lacking a comparative advantage in this area. Consequently, the industrial sector's performance during the 1970s and 1980s was disappointing, marked by significant deficits in public industrial enterprises due to low productivity and competitiveness. Despite numerous reforms, the Algerian industrial sector continued to struggle, leading to a process of deindustrialization by the late 1980s, which worsened under the IMF-supported adjustment program (1994-1998), and the same trends continued into the 2000s.

In response to these challenges, a national conference on "industrial recovery" was organized by the Ministry of Industry in 2021. Its primary objective was to develop a new approach to enhance the industry's contribution to the gross domestic product (GDP), aiming for a target of 10 to 15% in the medium term. The key features of this new strategy include combating bureaucracy, rehabilitating industrial real estate, rethinking the governance of state-owned enterprises, promoting innovative financing mechanisms, fostering creativity in industry, and conducting a comprehensive review of the investment code.

This study focuses on the main opportunities and challenges associated with the new industrial strategy. The findings indicate that while the measures implemented are significant, they are not sufficient on their own. It is essential to facilitate dialogue between the government and the private industrial sector to identify the sector-specific public goods necessary for new activities and to address existing regulations that hinder their emergence, thereby allowing high-potential industrial activities to grow more rapidly.

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